

**REPORT OF THE AUDIT OF THE
ROWAN COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

November 30, 2002



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
ROWAN COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

November 30, 2002

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2002 Taxes for Rowan County Sheriff as of November 30, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$3,541,241 for the districts for 2002 taxes, retaining commissions of \$146,102 to operate the Sheriff's office. The Sheriff distributed taxes of \$3,386,884 to the districts for 2002 Taxes. Taxes of \$536 are due to the districts from the Sheriff.

Report Comment:

- Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Clyde A. Thomas, Rowan County Judge/Executive

Honorable Jack Carter, Rowan County Sheriff

Members of the Rowan County Fiscal Court

Independent Auditor's Report

We have audited the Rowan County Sheriff's Settlement - 2002 Taxes as of November 30, 2002. This tax settlement is the responsibility of the Rowan County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Rowan County Sheriff's taxes charged, credited, and paid as of November 30, 2002, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated October 9, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Clyde A. Thomas, Rowan County Judge/Executive
Honorable Jack Carter, Rowan County Sheriff
Members of the Rowan County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
October 9, 2003

ROWAN COUNTY
JACK CARTER, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES

November 30, 2002

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 334,391	\$ 402,507	\$ 2,458,391	\$ 836,008
Tangible Personal Property	51,766	74,633	254,839	301,946
Intangible Personal Property				64,020
Fire Protection	1,096			
Increases Through Exonerations	137	164	986	375
Franchise Corporation	8,388	8,174	50,120	
Additional Billings	515	584	3,760	1,300
Clay Reserves	38	46	281	96
Penalties	13	15	92	32
Adjusted to Sheriff's Receipt	(23)		(192)	14
Gross Chargeable to Sheriff	<u>\$ 396,321</u>	<u>\$ 486,123</u>	<u>\$ 2,768,277</u>	<u>\$ 1,203,791</u>
<u>Credits</u>				
Exonerations	\$ 3,207	\$ 3,861	\$ 23,579	\$ 8,909
Discounts	5,687	7,101	39,547	18,497
Uncollected Additional Billings	70	79	499	176
Uncollected Clay Reserves	38	46	281	96
Transferred to Incoming Sheriff	<u>99,972</u>	<u>118,563</u>	<u>714,095</u>	<u>268,968</u>
Total Credits	<u>\$ 108,974</u>	<u>\$ 129,650</u>	<u>\$ 778,001</u>	<u>\$ 296,646</u>
Taxes Collected	\$ 287,347	\$ 356,473	\$ 1,990,276	\$ 907,145
Less: Commissions *	<u>12,500</u>	<u>15,150</u>	<u>79,611</u>	<u>38,841</u>
Taxes Due	\$ 274,847	\$ 341,323	\$ 1,910,665	\$ 868,304
Taxes Paid	274,143	340,563	1,905,854	866,324
Refunds (Current and Prior Year)	<u>662</u>	<u>715</u>	<u>4,465</u>	<u>1,877</u>
Due Districts as of		**		
Completion of Fieldwork	<u>\$ 42</u>	<u>\$ 45</u>	<u>\$ 346</u>	<u>\$ 103</u>

* and ** See Page 4.

The accompanying notes are an integral part of this financial statement.

ROWAN COUNTY
JACK CARTER, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES
November 30, 2002
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,540,965
4% on	\$	1,990,276

** Special Taxing Districts:

Library District	\$	20
Health District		<u>25</u>
Due Districts	\$	<u><u>45</u></u>

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS

November 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of November 30, 2002, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENT
November 30, 2002
(Continued)

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 19, 2002 through November 30, 2002.

Note 4. Interest Income

The Rowan County Sheriff earned \$690 as interest income on 2002 taxes. As of October 9, 2003, the Sheriff owed \$126 in interest to the school district and \$318 in interest to his fee account.

Note 5. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2002 taxes, the Sheriff had \$416 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

COMMENT AND RECOMMENDATION

ROWAN COUNTY
JACK CARTER, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

November 30, 2002

STATE LAWS AND REGULATIONS:

None.

INTERNAL CONTROL - REPORTABLE CONDITION:

Lacks Adequate Segregation Of Duties

During our audit we noted the Sheriff's office internal control structure lacked an adequate segregation of duties. This deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. In our judgment, this condition could adversely affect the Sheriff's ability to record, process, summarize, and report accurate financial information. We recommend the Sheriff obtain additional staff to divide the responsibilities or implement the following compensating controls that would help offset the lack of adequate segregation of duties:

- Cash periodically recounted and deposited by the official
- Periodic surprise cash counts by the official
- Agree daily tax collection totals to receipts ledger and deposit slip
- Agree monthly tax reports to receipts ledger and disbursements ledger
- All disbursement checks are to be signed by two people and one being the official
- Official delivers tax distribution checks and monthly tax reports to taxing districts
- The official or someone independent of the Sheriff's office prepare the bank reconciliation

Sheriff's Response:

Will try to make improvement with these issues.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

PRIOR YEAR:

Lacks Adequate Segregation Of Duties

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

Honorable Clyde A. Thomas, Rowan County Judge/Executive
Honorable Jack Carter, Rowan County Sheriff
Members of the Rowan County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Rowan County Sheriff's Settlement - 2002 Taxes as of November 30, 2002, and have issued our report thereon dated October 9, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Rowan County Sheriff's Settlement - 2002 Taxes as of November 30, 2002, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rowan County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

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Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
October 9, 2003

